

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

THE BOARD IS COMMITTED TO NURTURE AND PRESERVE THROUGHOUT IJM PLANTATIONS BERHAD (“THE COMPANY”) AND ITS SUBSIDIARIES (“THE GROUP”) A SOUND SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROLS AND GOOD CORPORATE GOVERNANCE PRACTICES AS SET OUT IN THE BOARD’S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL, MADE IN COMPLIANCE WITH PARAGRAPH 15.26(B) OF THE MAIN MARKET LISTING REQUIREMENTS (“LR”) OF BURSA MALAYSIA SECURITIES BERHAD (“BURSA SECURITIES”) AND GUIDED BY THE STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL: GUIDELINES FOR DIRECTORS OF LISTED ISSUERS.

BOARD’S RESPONSIBILITY

The Board affirms its responsibility for maintaining a sound risk management framework and internal control system to safeguard the shareholders’ investments and the Group’s assets, as well as to discharge its stewardship responsibility in identifying principal risks and ensuring the implementation of an appropriate risk management and internal control system to manage those risks in accordance with Principle B of the Malaysian Code on Corporate Governance.

The Board continually articulates, implements and reviews the adequacy and effectiveness of the Group’s enterprise wide risk management and internal control system which has been embedded in all aspects of the Group’s activities. The Board reviews the processes, responsibilities and assesses for reasonable assurance that risks have been managed within the Group’s risk appetite and tolerable ranges and to ensure that the system is viable and robust.

Notwithstanding, the Group’s system is designed to manage rather than eliminate the risk of failure to achieve the Group’s business objectives. Accordingly, such systems can only provide a reasonable but not absolute assurance against material misstatement, loss or fraud, and that any adverse impact arising from a foreseeable future event or situation on the Group’s objectives is mitigated and managed.

The Board has received assurance from the Chief Executive Officer & Managing Director (“CEO & MD”) and the Chief Financial Officer that the Group’s risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control framework of the Group.

During FY2019, the Risk Management Committee (“RMC”) reviewed, appraised and assessed the controls and actions in place to mitigate and manage the overall Group’s risk exposure, as well as raised issues of concerns and recommended mitigating actions. The RMC reports to the Audit Committee on a quarterly basis where key risks and mitigating actions are deliberated and implemented. The Audit Committee then presented their deliberations and decisions to the Board.

During the financial year, the adequacy and effectiveness of the internal controls were reviewed by the Audit Committee in relation to the internal audits conducted by the Internal Audit Department, as well as the control issues reported by the external auditors. The Audit Committee deliberated on the audit issues and actions taken by Management, and these deliberations have been presented to the Board.

Where there are internal control and risk-related matters warranting the attention of the Board, these matters are recommended by the Audit Committee to the Board for its deliberation and decision.

KEY FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Group has a well-defined organisational structure with clearly delineated lines of accountability, authority and responsibility to the Board, its committees and

operating units. Key processes have been established in reviewing the adequacy and effectiveness of the risk management and internal control system.

1. AUTHORITY AND RESPONSIBILITY

- The Management Committee (“MC”) manages the Group’s operations in accordance with corporate objectives, strategies, policies, key performance indicators and annual budgets as approved by the Board.
- The Audit Committee of the Group, with the assistance of the RMC, oversees the Group’s risk management framework, policies and performs regular risk management assessments and through the Internal Audit Department, reviews the internal control procedures and processes, and evaluates the adequacy and effectiveness of the risk management and internal control system. The Audit Committee also seeks the observations of the independent external auditors of the Group, wherever required.
- The RMC oversees, performs regular reviews on risk management processes and ensures prudent risk management over the Group’s business and operations. The RMC for the Sabah operations is chaired by the CEO & MD and the RMC for the Indonesian operations is chaired by the Chief Executive Officer (Indonesia). Both RMCs comprise of senior representatives from operations, as well as from the relevant Head Office operations support departments. The two (2) RMCs report to the Audit Committee on a quarterly basis where key risks and mitigating actions are deliberated and implemented.
- The Nomination & Remuneration Committee assists the Board including but not limited to reviewing and recommending appropriate remuneration policies for Directors and senior management, reviewing succession plans, recommending candidates to the Board, and evaluating the performance of the Board as a whole and the contribution of each individual Director (including Board Committees) on an annual basis.
- The Securities and Options Committee administers options and/or shares under the employee share scheme and regulates the securities transactions in accordance with established regulations and by-laws.

2. PLANNING, MONITORING AND REPORTING

- Regular, comprehensive and up-to-date information are conveyed to the Board and its committees covering finance, operations, key performance indicators and other business indicators such as economic and market conditions at their monthly or periodic meetings, facilitating the monitoring of performance against the corporate strategy and business plans.
- Annual budgets are prepared for the forthcoming year and approved by the Board. These budgets are used to monitor actual versus budgeted and prior period’s performance with major variances being reviewed and management actions taken as necessary.
- Periodic company briefings with analysts are conducted to apprise the shareholders, stakeholders and general public of the Group’s performance whilst promoting transparency and open discussion.
- Annual validation of the Group’s sustainability materiality matrix identified in FY2018 was carried out at the Group level to ensure that the identified factors remained relevant and material to the business and stakeholders. Adjustments are made in line with current circumstances facing the Group.

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3. POLICIES, PROCEDURES AND VALUES

- Clearly documented standard operating policies and procedures to ensure compliance with internal controls, laws and regulations, which are subjected to regular reviews and improvement, have been communicated to all levels.
- Established guidelines for recruitment, human capital development and performance appraisal to enhance staff competency levels have been disseminated to all employees.
- Clearly defined levels of authority for day-to-day business aspects of the Group covering procurement, payments, investments, acquisition and disposal of assets are reviewed periodically.
- Adoption and consistent application of appropriate accounting policies in the annual financial statements of the Group and Company, and prudent judgements and reasonable estimates have been made in accordance with the applicable accounting standards in Malaysia. Processes and controls are in place for effective and efficient financial reporting and disclosure in the annual and quarterly financial statements of the Group and the Company to give a true and fair view of the financial position and financial performance of the Group and the Company.
- Top down communication is made to all levels, of the company's values such as the Group's charter, statements of vision, mission and core values, code of ethics and conduct, corporate disclosure policy, diversity and inclusion policy as well as avenues for whistle blowing.

4. AUDITS

- The Internal Audit Department ("IAD") of the Group's holding company IJM Corporation Berhad performs internal audits on various operating units within the Group on a risk-based approach based on the annual audit plan approved by the Audit Committee. The IAD checks for compliance with policies and procedures and the effectiveness of the internal control system and highlights significant findings of non-compliance in the quarterly Audit Committee meetings of the Group. Further details of the IAD's functions and activities are set out in the Audit Committee Report.
- The external auditor's annual audit strategy, audit plan and scope of works for the financial year in relation to the audit services on the Group's financial statements as well as non-audit services, if any, are reviewed and approved by the Audit Committee. Further details on the oversight of the external auditors are set out in the Audit Committee Report.
- The Company and certain subsidiaries, which are accredited with various quality, health, safety and environment and other certifications, undergo scheduled on-site audits by auditors of relevant industry certification bodies. The results of these audits are reported to management.

5. RISK MANAGEMENT

The RMC principally develops, executes and maintains the enterprise wide risk management system to ensure that the Group's corporate objectives and strategies are achieved within the acceptable risk appetite of the Group. The RMC designed and developed the Group's risk management framework with the assistance of a professional organisation, PricewaterhouseCoopers in 2002. Its reviews cover responses to significant risks identified including non-compliance with applicable laws, rules, regulations and guidelines, changes to internal controls, risk management framework and management information systems, and output from monitoring processes as well as continual review process of identified risks and effectiveness of mitigation strategies and controls.

A risk map addressing the risks to the achievement of strategic, financial, operational and other business objectives, using quantitative and qualitative aspects to assess their likelihood and impact matrices, and the controls for assuring the Board that the processes put in place continue to operate adequately and effectively to manage those risks at acceptable levels, is prepared quarterly.

As the business risk profile changes, new areas are introduced for risk assessment and the necessary updates are made to the existing risks.

The Group's Head Office considers and incorporates the risks associated with the Group's strategic objectives and overall risk appetite

which are not addressed at the operations level. The consolidated major risks and the mitigating actions are reported to the RMC before being presented to the Audit Committee on a quarterly basis.

Risk Assessment Reviews

During the financial year ended 31 March 2019, the Group conducted their risk management and internal control system reviews which were assessed by the RMC and reported to the Audit Committee at each quarter. The Group identified major risk areas of concern and mitigating actions were undertaken within appropriate timeframes. The management of the Group's significant risks identified for the financial year 2019 is outlined below:

a) Market Risk Management

Market risks refer to the risks resulting from economic and regulatory conditions and the inherent cyclical nature of the business.

The Group has expanded its operations to Indonesia. The expansion entails added risks given their different operating and economic environments. Nevertheless, the Group continues to monitor the identified market risks whilst it continues to complete its expansion of operations.

Political risks

Political risks refer to the change of government, government decisions, events or conditions that may affect the performance of the Group's businesses such as minimum wage increase and new taxes. The Group will closely monitor and be proactive in the management of associated risks by engaging and working with the government.

Commodity and Currency risks

Commodity risk arises from the volatility of commodity prices. The Group manages such risk with the following measures:

- Constantly monitoring the commodity prices to determine the appropriate timing to transact sales;
- Selling using the Malaysian Palm Oil Board and PT Kharisma Pemasaran Bersama Nusantara ('PT KPBN') average price mechanism;
- Hedging through forward sales or crude palm oil pricing swap arrangement; and
- Close monitoring of pricing trends of major oils and fats.

The Group manages foreign exchange exposures by monitoring their movement and

would enter into forward foreign exchange contracts or cross currency swap contracts when there is a need. Borrowings are kept to an acceptable level.

Regulatory risks

The Group's businesses are governed by relevant laws, regulations, standards and licenses. The Group constantly assesses the impact of new laws and regulations affecting its businesses to ensure that its processes and infrastructure settings are able to operate under the new requirements. New laws and regulations which have an impact to the Group during FY2019 include the following:

- LR of Bursa Securities;
- Malaysian Budget 2019 and Finance Act;
- Goods And Services Tax (Repeal) Act 2018; and
- Sales Tax Act and Services Tax Act 2018.

The Group manages these regulatory risks with the following measures:

- Be updated with the new laws and/or requirements by participating in seminars, conferences and trainings, both in-house and external, as presented by authorities, experts or specialists;
- Implementing appropriate policies, procedures, guidelines, and contracts management practices; and
- Maintaining regular communication with the authorities, industry, accounting, tax and legal experts to ensure compliance at all times.

The Group is also mindful of the government's plans for various reforms and will take cognisance of the legal and regulatory changes being implemented in due course and will make the necessary adaptations and changes to comply with the new requirements.

The Group has adopted an Anti-Bribery and Corruption Policy in view of the introduction of Section 17A of the Malaysian Anti-Corruption Commission (Amendment) Act 2018, which is expected to come into force in June 2020.

b) Credit and Liquidity Risk Management

These risks arise from the inability to recover debts in a timely manner which may adversely affect the Group's profitability, cash flows and funding. The Group minimises such exposures with the following measures:

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- Assessing the creditworthiness of potential customers before granting credit limits and periods;
- Close monitoring of collections and overdue debts; and
- Ensuring effective credit utilisation to keep leverage at a comfortable level.

c) Operational Risk Management

Operational risks arise from the execution of a Group's business including risks of inadequate skilled workforce, adverse climatic conditions, systems and equipment failure and overcapacity situations.

Inadequate skilled workforce risk

Similar to other companies in the industry, the Group faces a common challenge in the form of inadequate skilled labour due to the difficulty in recruiting skilled workers. To mitigate the risk of slowdown in harvesting operations, various measures as follows are being carried out by the Group to attract and retain skilled labour:

- Working with the industry fraternity to improve the availability of labour;
- Upgrading the living quarters of workers complete with amenities including electricity and water, medical care, crèche, education centres, recreational and sports facilities in phases;
- Entering into partnership with NGOs such as the Borneo Child Aid to provide education to the children of workers with the intention of retaining the workers;
- Encouraging local school leavers to participate in the plantation sector and to offer suitable internship programmes for undergraduates via joint ventures with universities and agricultural/labour authorities; and

- Reviewing the remuneration benefits of workers from time to time to stay competitive.

Adverse weather risk

To mitigate the effect of any prolonged dry weather, the Group continued to ensure the following measures are being carried out and put in place:

- Employing good agronomic and estate practices as per the operating manual;
- Carrying out water conservation and irrigation measures to ensure its oil palms receive adequate water;
- Deepening reservoirs, where possible, to increase water storage capacity with the objective of irrigating the surrounding fields; and
- Ensuring appropriate agricultural training for its cadets and field staff.

d) Disaster Recovery Management

With the advent of cyber threats, Management Information System ("MIS") failure and other potential hazards such as fires, floods, earthquakes and major equipment failures, amongst others, the continuity of business operations is of a major concern to the Group.

To manage the risk, the Group has put in place the necessary disaster recovery plan for its critical business system.

Regular incident management drills including basic fire safety are conducted to ensure that our employees are familiar with the planned emergency response and crisis management plans. During the financial year, the Group did not encounter any major business interruption or crisis situations.

6. SUSTAINABILITY

Major sustainability risks have been addressed in line with the Group's sustainability framework and business strategies emphasising key focus

areas of Marketplace, Environment, Community and Workplace as elaborated in the Report on Sustainability.

7. INSURANCE

Group has in place adequate insurance coverage and regularly reviewed the coverage for its business operations, assets and employees

where it is available on economically acceptable terms to minimise the related financial impacts.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide (“AAPG”)

3 issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

CONCLUSION

For the financial year under review and up to the date of issuance of this statement, the Board is pleased to state that the Group’s system of risk management and internal control was rated overall as satisfactory, adequate and effective for the Group’s purpose and safeguards the Group’s assets and shareholders’ investments, as well as the interests of customers, employees and other stakeholders. There have been no material losses, contingencies or uncertainties identified from the reviews.

THE BOARD WILL CONTINUE TO MONITOR ALL MAJOR RISKS AFFECTING THE GROUP AND WILL TAKE THE NECESSARY MEASURES TO MITIGATE THEM AND ENHANCE THE ADEQUACY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM OF THE GROUP.

This Statement on Risk Management and Internal Control is made in accordance with a resolution of the Board of Directors dated 12 July 2019.



Aerial view of Minat Teguh Estate